

Central Intelligence Agency



Washington, D.C. 20505

25 September 1984

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## MEMORANDUM

SUBJECT: Canadian Policy Under Mulroney

Mulroney came to power largely because the voters perceived the Conservative Party as capable of providing "something new" after more than two decades of Liberal governments. The Tories now must try to satisfy popular expectations even though domestic economic and political conditions, as well as the state of international affairs, militate against any major policy changes. As a result, we expect Mulroney will strive to give his government at least the appearance of renewed competence, vigor, and forward motion. He will also try to contrast his "conciliatory and constructive" approach with the "confrontational and disruptive" stands taken by his predecessor. [redacted]

Domestic Policy

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Mulroney's government is confronted with 13 percent interest rates and 11.2 percent unemployment. Its budget deficit is approaching \$25 billion and its debt-servicing expenditures now consume almost a quarter of every tax dollar. Faced with these budget realities -- and his electoral pledge not to tamper with Canada's comprehensive social welfare system -- there is little Mulroney can do in the short term to change the substance of Liberal economic policy. His only deviation probably will involve some tinkering with funding plans for job creation. He also is likely to convene an early federal-provincial conference to seek a "unified" approach to solving Canada's economic problems. [redacted]

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These measures would be designed to keep the Canadian economy on an even keel while the new government gets its sea legs and to prolong the atmosphere of optimism created by the Tories' election campaign and landslide victory. If the recovery continues -- and this will depend largely on trends in the US economy -- Mulroney may accept some of the more conservative economic policies being pressed on him by the Tory right. These include a reexamination of the principle of "universality" in social welfare benefits, reduced taxes on business, deregulation of some domestic industries, and a dramatic decrease in federal intervention in the economy. All are policies Mulroney probably personally prefers. [redacted]

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Foreign Affairs

The new government also is constrained by the electorate's clear preference for the multilateral and internationalist approach in foreign policy pursued by all Canadian governments since 1945. Here, however, Mulroney has room to maneuver. Indeed, there are factions within his party that favor a break with Liberal precedent, and Mulroney himself is likely to become actively involved in the conduct of foreign affairs -- particularly concerning the US -- in order to build his domestic and international reputation. Following are some of the major foreign policy issues facing the Conservative government and the stance we believe it will take during its initial years in power.

- Canadian Sovereignty - Because the Tories are often viewed by the Canadian public as being too close to Washington and too willing to give the US the "benefit of the doubt" in foreign affairs, Mulroney will be anxious to establish at an early date a public perception that he is his own man.

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- Arms Control and Disarmament - Election pledges have committed Mulroney to pursue the remnants of Trudeau's peace initiative with some vigor. An ASAT ban and limits on ICBM mobility are the most likely focus of Ottawa's attention in the near future. Joe Clark, the new External Affairs Minister, spent much of the past year studying arms control and is likely to consider the matter his personal domain.

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- NATO and Defense Issues - Mulroney's government is firmly committed to enhancing Canada's ties with the Alliance. It has already indicated that it plans to increase overall defense spending -- albeit marginally -- and to expand armed forces' manpower by about ten percent.

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Budget constraints make a rapid improvement in any of these areas unlikely, but we do expect to see gradual growth over the course of Mulroney's mandate. We also expect Clark to be active in NATO circles -- perhaps looking for additional debate and discussion of Alliance strategy within the context of the North Atlantic Council and other Alliance forums. Both he and Mulroney are likely to be markedly more supportive of NATO in their public rhetoric than was Trudeau.

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- Support for Washington in Non-NATO Contexts - It is in this area that Mulroney's government is likely to show the most continuity with traditional postwar Canadian foreign policy. On matters such as East-West trade, everyday political relations with the Communist world, and US involvement in non-European regions -- especially in Central America -- we believe the Tories will steer a pragmatic course, supporting the United States when they deem it to be in Canada's interest and chastizing Washington otherwise. Unlike Trudeau, however, we expect Mulroney to refrain from gratuitous negative comments about US foreign policy and to remain evasive or silent when it is politically possible to do so.
  - Foreign Investment - Mulroney's Cabinet almost unanimously favors some relaxation of controls on foreign investment, but it faces an electorate that by and large favors some continued regulation and limitation. The Tories are likely to maintain a policy modeled on that of the current Foreign Investment Review Agency (FIRA) -- although they probably will change the organization's name because they believe that the acronym itself discourages would-be foreign investors. We expect them to continue to limit foreign control in the energy, telecommunications, banking, and media sectors, but FIRA's nearly 97-percent approval rate on foreign investment applications in 1983 indicates that the Tories have little to do beyond changing investment atmospherics.
  - Energy Policy - We believe that Mulroney will tamper only marginally with the National Energy Program and will concentrate on bringing domestic oil prices to world levels and refocusing the tax regime on profits rather than revenues. The Tories have promised to scrap the retroactive feature of the NEP's crown share, which gives Ottawa an automatic 25-percent share in all oil and gas production on federal lands. They will have to move slowly, however, because they require the cooperation of the provinces of Nova Scotia and Newfoundland and they will have to convince the electorate that they are not backing away from the very popular goal of "Canadianizing" the energy industry. In the end, Mulroney may eliminate the retroactive feature, but retain the Federal government's interest in all new oil and gas leases.
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- Acid Rain/Environment - Mulroney seems to give environmental issues much lower priority than did his Liberal predecessors. For example, he gave the post of Minister of the Environment to a freshman Member of Parliament from Quebec -- Suzanne Blais-Grenier -- and thus passed over John Fraser who almost singlehandedly made acid rain a high-level bilateral issue during the last Tory government in 1979/80. In addition, the Tories are more cognizant than the Liberals of the costs of eliminating the sources of acid rain -- both at home and in the US. Nevertheless, Mulroney must contend with a powerful environmental lobby, and we expect him to press for a more substantial and highly publicized research program into the pollution problems shared by Canada and the US.
- Fisheries - Mulroney has committed his government to rebuilding Canada's Atlantic and Pacific fishing fleets and making them more competitive in international markets. In this regard, he considers equitable treaty agreements with the US -- covering both fishing rights and conservation and propagation measures -- to be indispensable. His choice of Fraser, the competent and highly respected British Columbia MP, as Minister of Fisheries indicates his intention to make revitalizing the industry a high-priority item on his government's agenda and on the Canada-US agenda.

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